

COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS

AND BUSINESS REGULATION

DIVISION OF INSURANCE

SUFFOLK, ss.

DOCKET NO. F-2004-01

IN THE MATTER OF THE ACQUISITION OF CONTROL
OF
THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS
BY
THE ST. PAUL COMPANIES, INC.

MEMORANDUM OF DECISION AND ORDER

INTRODUCTION

On November 25, 2003, The St. Paul Companies, Inc., a Minnesota stock insurance company (the “Applicant”) submitted an application to the Massachusetts Division of Insurance (“the Division”) on Form A, pursuant to G.L. c. 175, § 206B and 211 CMR 7.00, seeking approval of its plan to acquire control of The Premier Insurance Company of Massachusetts (“Premier”), a Massachusetts domiciled stock insurance company and wholly owned subsidiary of Travelers Property Casualty Corp. (“Travelers”) a Connecticut corporation. The Form A requests approval under § 206B of the acquisition of control by Applicant of Premier pursuant to the terms of an Agreement and Plan of Merger dated November 16, 2003 (the “Merger Agreement”), by and among

Applicant, Travelers, a Connecticut corporation; and Adams Acquisition Corp., a Connecticut subsidiary of Applicant (the “Merger Sub”). Pursuant to the terms of the Merger Agreement, Merger Sub will merge (the “Proposed Transaction”) with and into Travelers, with Travelers surviving as a wholly owned subsidiary of Applicant. At the closing of the Proposed Transaction, each share of Travelers Class A common stock, and Class B common stock, together with associated preferred stock purchase rights, will be converted into the right to receive 0.4334 shares of Applicant’s common stock, no designated par value. As a result of the Proposed Transaction, Applicant will become the ultimate controlling person of Travelers and its subsidiaries. The Applicant will be renamed The St. Paul Travelers Companies, Inc. (“The St. Paul Travelers”).

HEARING

A public hearing was held in this matter commencing at 10:00 a.m. on February 25, 2004 (“the Hearing”) at the Division's offices at One South Station, Boston, Massachusetts pursuant to a Notice of Hearing that was published in The Boston Globe on February 12, 2004; the Worcester Telegram & Gazette on February 12, 2004; and The New York Times on February 13, 2004. The 20 days notice requirement set forth in G.L. c. 175, § 206B (d)(2), was waived by Applicant.

The following persons participated at the Hearing:

- Bruce H. Saul, Vice President of The St. Paul Companies, Inc.;
- Paul H. Eddy, Deputy General Counsel of Travelers Property & Casualty Corp.;
- Ellen M. Dunn, Esq., and Peter S. Rice, Esq., LeBoeuf, Lamb, Greene & MacRae, L.L.P, Counsel to The St. Paul Companies, Inc.;
- Donald Johnson, Supervising Examiner, Division of Insurance;
- Meilng He, Senior Financial Analyst, Division of Insurance; and
- Douglas Perry, Esq., Assistant General Counsel, Division of Insurance.

The Hearing Officer noted that no additional persons had filed a Notice of Intent to testify at the hearing. Bruce H. Saul, Vice President of the Applicant, then testified describing the Proposed Transaction in some detail. He stated that as a result of the Proposed Transaction, Travelers would become a direct, wholly owned subsidiary of the Applicant and all of the current subsidiaries of Travelers, including Premier, would become indirect wholly owned subsidiaries of Applicant.

He indicated that Applicant had filed applications for approval in other states where Travelers has domiciled insurance companies: Arizona, California, Connecticut, Delaware, Florida, Indiana, Iowa, Minnesota, New Jersey and Texas. He also noted that certain disclosure filings had been made in other states. He indicated that the Minnesota Department of Commerce had approved Applicant's Form A filing on February 19, 2004. He noted that shareholders of Applicant and Travelers must approve the Proposed Transaction and that shareholder meetings of both of those companies is scheduled to be held on March 19, 2004.

He explained that following the closing of the Proposed Transaction, Applicant would change its name to The St. Paul Travelers Companies, Inc.

Mr. Saul testified that following the completion of the Proposed Transaction, The St. Paul Travelers is expected to have total assets, premiums and shareholders' equity of \$109.1 billion, \$14.5 billion and \$20.2 billion, respectively.

He added that the Proposed Transaction would be in the public interest and benefit the policyholders of Premier because of the added strength and scale and product diversity created by the Proposed Transaction.

He explained that the Proposed Transaction did not include any plans to change the business of Premier. He added that a group-wide tax allocation agreement is being considered. He also

confirmed that the Applicant has reviewed and understands the Business Plan of Premier as a stand-alone Massachusetts insurer, dedicated to auto and homeowner risks in Massachusetts.

Mr. Saul then addressed the question of competition in the Massachusetts insurance market following the closing of the Proposed Transaction. He stated that the combined company would have a 9.62 percent combined market share in Massachusetts. He indicated that Applicant and Travelers had evaluated the effect of the Proposed Transaction on separate lines that both companies conduct in Massachusetts. He referred specifically to Exhibit 24 to the Form A filing and indicated that all of the business lines fall within the safe harbors (as defined in the NAIC Model Act) for the “highly concentrated” market test except for Boiler & Machinery. He elaborated on market share, competitors and market concentration in considerable detail.

He stated that Applicant made the required Hart-Scott-Rodino Act pre-merger notification filing with the Department of Justice and the Federal Trade Commission and that both agencies granted early termination of the waiting period, indicating that they did not perceive any significant lessening of competition or market power issues raised by the Proposed Transaction.

Mr. Saul summarized his testimony by stating that there is no basis to believe the Proposed Transaction will lessen competition or tend to create a monopoly in any line of insurance in Massachusetts.

Douglas Perry, Esq., Assistant General Counsel of the Division of Insurance, asked the witness to describe any monopoly and competition issues on the Massachusetts auto market. Mr. Saul explained that the Proposed Transaction would have no impact on the Massachusetts auto market because the Applicant has zero writings of that business in Massachusetts.

Mr. Saul noted that Applicant had submitted into the record, a Domestic Company Certificate of Compliance which states that Premier is duly organized and authorized for the lines of insurance designated in the certificate.

Paul H. Eddy, Esq., Deputy General Counsel of Travelers Property & Casualty Corp., testified that Premier, a wholly owned Massachusetts subsidiary of Travelers, uses an independent distribution system to handle all of Travelers' personal lines business, including auto and homeowners. Premier employs about 500 people and is headquartered in Worcester, Massachusetts, with claims offices in several other cities in Massachusetts. He stated that the Proposed Transaction would have no immediate impact on Premier's business plans or operations or management.

The record in this hearing was left open for the sole purpose of awaiting the approval of the Proposed Transaction in the State of Connecticut. The Connecticut approval was received and reviewed by the Division on March 3, 2004.

FINDINGS OF FACT AND CONCLUSION OF LAW

After consideration of the Form A and all other documents filed with the Division in this matter, and all evidence and arguments presented at the hearing, I find as follows:

1. The Premier Insurance Company of Massachusetts is a Massachusetts stock insurance company, and is a "domestic insurer" within the meaning of G.L. c. 175, § 206B (a).
2. Applicant proposes to acquire "control" of Premier, as that term is defined in G.L. c. 175, § 206, by merging Premier's parent company, Travelers, into a wholly owned subsidiary of Applicant.

3. After the proposed acquisition of control has occurred, Premier will be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is currently licensed by the Division.
4. The effect of the proposed acquisition of control will not substantially lessen competition in insurance in the Commonwealth of Massachusetts or tend to create a monopoly therein.
5. The financial condition of Applicant is not such as might jeopardize the financial stability of Premier or prejudice the interest of Premier's policyholders.
6. The terms of the Proposed Transaction are not unfair or unreasonable.
7. Applicant has no plans or proposals to liquidate Premier, to sell its assets, to consolidate or merge Premier with any person, or to make any other material change in the business, corporate structure or management of Premier that is unfair or unreasonable or is not in the public interest except as disclosed in the Form A.
8. The competence, experience and integrity of the persons who will control the operation of Premier are such that it would be in the interest of the public to permit the proposed acquisition of control.
9. The proposed acquisition of control is not likely to be hazardous or prejudicial to the insurance-buying public.

ORDER

Based upon the above, I find that Applicant's Form A filing satisfies the requirements of G.L. c. 175, § 206B.

Accordingly, the application to acquire control of The Premier Insurance Company of Massachusetts is hereby APPROVED.

Richard A. Cody, Presiding Officer

Dated: March 19, 2004.

AFFIRMED

I hereby affirm the above Order.

Julianne M. Bowler, Commissioner of Insurance

Dated: March 19, 2004